

**BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION, AND
OTHER SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland, a component unit of Talbot County, Maryland, (the Board) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis, budgetary comparison information, and the schedule of funding progress for other post employment benefits*, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

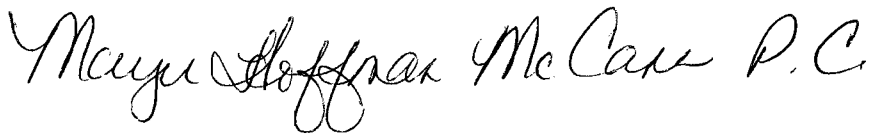
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Talbot County Board of Education's basic financial statements. The combining nonmajor fund financial statements, schedule of general fund revenues, and schedule of school activities cash receipts and cash disbursements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements, schedule of general fund revenues, schedule of school activities cash receipts and cash disbursements, and the schedule of expenditures of federal awards are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, schedule of general fund revenues, schedule of school activities cash receipts and cash disbursements, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

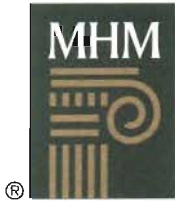
BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2013 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive script.

Easton, Maryland
September 23, 2013



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the board's basic financial statements, and have issued our report thereon dated September 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Board's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Easton, Maryland
September 23, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2013

This section of the Board of Education of Talbot County's annual financial report presents management's discussion and analysis of the Board's financial performance during the fiscal year that ended on June 30, 2013. Please read it in conjunction with the Board's financial statements, which immediately follow this section.

Financial highlights

Key financial highlights for the fiscal year (FY) ended June 30, 2013 include the following:

- Net position totals \$46,061,205, a decrease of \$5,702,724, or 11% from the prior year.
- General Fund unassigned fund balance was \$54,862, after an assignment for encumbrances of \$647,758. The total fund balance was \$702,620, an increase of \$51,639 from the prior year.

Overview of the financial statements

The financial section of the annual report consists of four parts – independent auditor's reports, required supplementary information, which includes management's discussion and analysis (this section), the basic financial statements, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the Board:

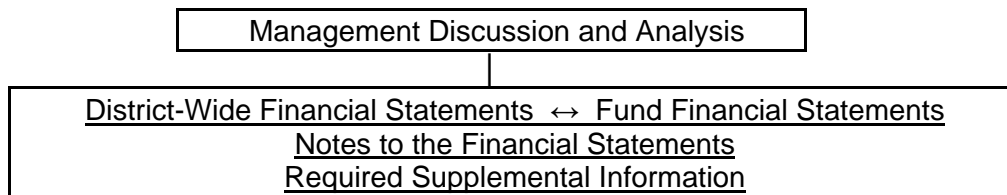
- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the Board's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Board, reporting the Board's operations in *more detail* than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Fiduciary funds statements* provide information about the financial relationships in which the Board acts solely as a *trustee or agent* for the benefit of others to whom the resources belong.

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2013

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure 1 shows how the various parts of this annual report are arranged and relate to one another. Figure 2 summarizes the major features of the Board's financial statements, including the portion of the Board's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure 1 – Organization of TCBOE Annual Financial Report



The illustration above represents the minimum requirements for the basic financial statements.

Figure 2 – Major Features of District-Wide and Fund Financial Statements

	District-Wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the Board that are not proprietary or fiduciary, such as general and special education, general and building maintenance, food service, and capital projects	Instances in which the Board administers resources on behalf of someone else, such as the Special Education Consortium and Student Activities Fund
Required financial statements	<ul style="list-style-type: none"> Statement of net position Statement of activities 	<ul style="list-style-type: none"> Balance sheet Statement of revenue, expenditures and changes in fund balances 	<ul style="list-style-type: none"> Statement of fiduciary net position Statement of changes in fiduciary net position (excluding agency funds)
Accounting basis and measurement focus	Full accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2013

District-wide financial statements

The district-wide perspective is designed to provide readers with a complete financial view of the entity known as The Board of Education of Talbot County. The financial presentation of this perspective is similar to a private sector business.

The Statement of Net Position presents information on all of the assets and liabilities of the Board with the difference between the two reported as *net position*. The Statement of Activities presents information showing how the Board's net position changed during the most recent fiscal year.

All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

Over time, increases or decreases in the Board's net position are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the Board you also need to consider additional non-financial factors such as changes in the condition of school buildings and other facilities.

The district-wide perspective is unrelated to budget and, accordingly, budget comparisons are not provided.

Fund financial statements

The fund financial statements provide more detailed information about the Board's *funds* – focusing on its most significant or “major” funds – not the Board as a whole. Funds are accounting devices the Board uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues (e.g., federal and state grants).
- The Board has two kinds of funds:
 - *Governmental funds* – Most of the Board's basic services are included in governmental funds, which generally focus on (1) *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information reconciling governmental funds statements with the district-wide statements.
 - *Fiduciary funds* – The Board is the trustee, or agent, for assets that belong to others, such as the Mid-Shore Special Education Consortium. The Student Activities Fund is also accounted for as a fiduciary fund. The Board is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the Board cannot use these assets to finance its operations.

**THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland**

**Management's Discussion and Analysis (MD&A)
June 30, 2013**

Financial analysis of the board as a whole

Net position – The Board's net position was \$46,061,205 on June 30, 2013. This was a decrease of \$5,702,724 from the prior year. (See Table 1).

Table 1

	GOVERNMENTAL ACTIVITIES	
	2013	2012
<u>ASSETS</u>		
Current and other assets	\$ 6,583,264	\$ 7,180,797
Capital assets	<u>64,104,929</u>	<u>66,253,371</u>
TOTAL ASSETS	<u>70,688,193</u>	<u>73,434,168</u>
<u>LIABILITIES</u>		
Current liabilities	5,824,844	6,584,023
Long-term liabilities	<u>18,802,144</u>	<u>15,086,216</u>
TOTAL LIABILITIES	<u>24,626,988</u>	<u>21,670,239</u>
<u>NET POSITION</u>		
Net investment in capital assets	63,727,587	65,699,863
Restricted	194,715	250,654
Unrestricted	<u>(17,861,097)</u>	<u>(14,186,588)</u>
TOTAL NET POSITION	<u>\$ 46,061,205</u>	<u>\$ 51,763,929</u>

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2013

Financial analysis of the board as a whole – continued

Changes in net position – The Board's total revenues were \$60,572,712 for the year ended June 30, 2013. (See Table 2). The county appropriation and state aid accounted for approximately 72% of total revenue for the year. Another 26% came from program revenues, and the remainder from investment earnings and other sources. The total cost of all programs and services was \$66,353,803. The Board's expenses are predominantly related to providing direct educational services to students (56%). The purely administrative activities of the Board accounted for 2% of total expenses. Total expenses surpassed revenues, decreasing net position \$5,702,724 from last year.

Table 2

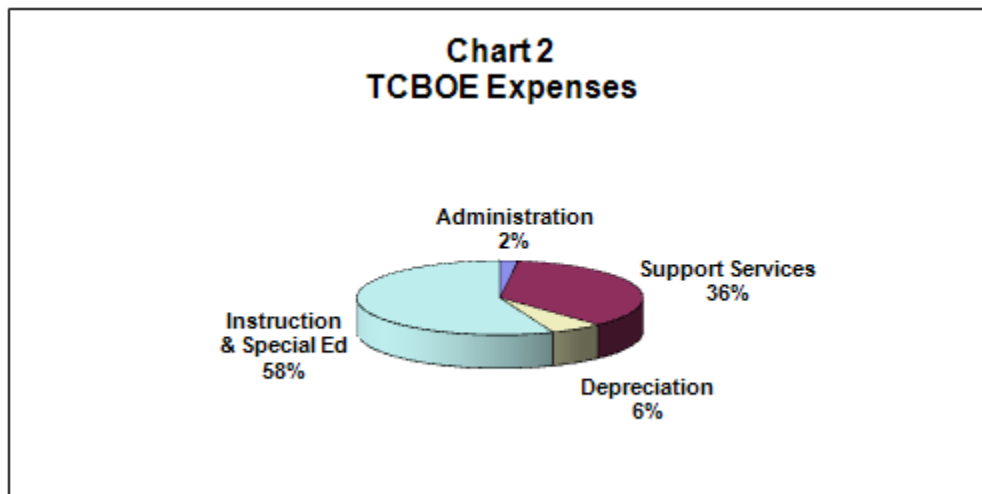
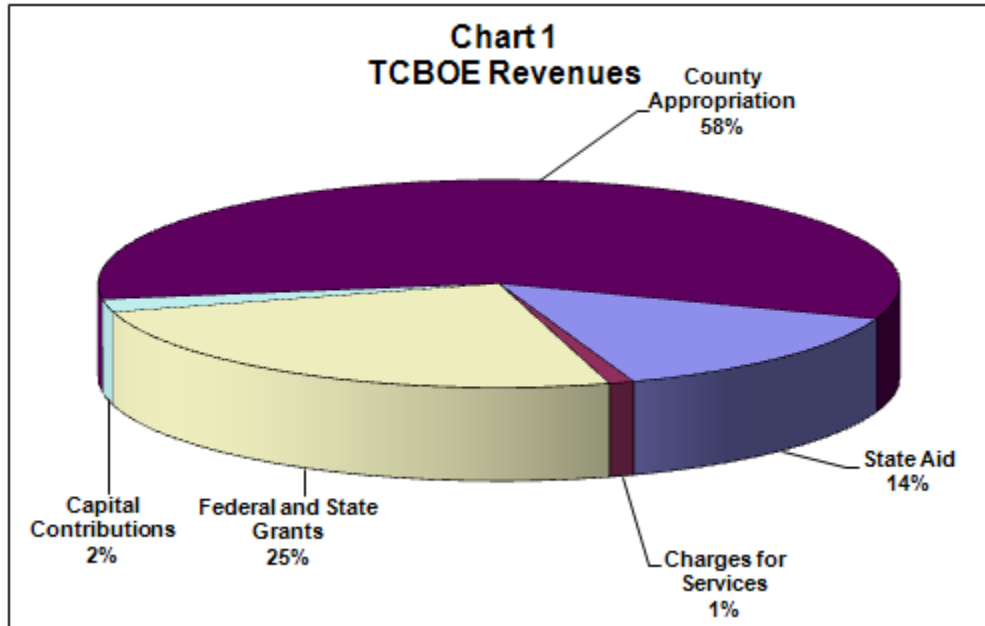
	2013	% OF	2012	% OF
	GOVERNMENTAL	TOTAL	GOVERNMENTAL	TOTAL
	ACTIVITIES		ACTIVITIES	
<u>REVENUES</u>				
<i>Program Revenues:</i>				
Charges for services	\$ 744,298	1.2	\$ 789,272	1.3
Federal, state and local grants	15,113,537	24.9	15,333,004	26.2
<i>General Revenues:</i>				
County appropriation	34,960,007	57.6	32,403,006	55.3
State of Maryland	8,586,803	14.2	8,156,560	13.9
Restricted for capital projects	1,201,291	2.0	1,812,536	3.1
Other	<u>46,776</u>	<u>0.1</u>	<u>75,874</u>	<u>0.2</u>
TOTAL REVENUE	<u><u>60,652,712</u></u>	<u><u>100.0</u></u>	<u><u>58,570,252</u></u>	<u><u>100.0</u></u>
<u>EXPENSES</u>				
Instruction and special education	36,988,704	55.7	36,617,824	55.6
Administration	1,298,653	2.0	900,365	1.4
Support services	24,024,020	36.2	24,323,211	36.9
Depreciation	<u>4,042,426</u>	<u>6.1</u>	<u>4,034,352</u>	<u>6.1</u>
TOTAL EXPENSES	<u><u>66,353,803</u></u>	<u><u>100.0</u></u>	<u><u>65,875,752</u></u>	<u><u>100.0</u></u>
EXCESS OF EXPENSES OVER REVENUES	(5,701,091)		(7,305,500)	
Transfer of Unreserved Fund Balance to County	<u>(1,633)</u>		<u>(37,354)</u>	
DECREASE IN NET POSITION	<u><u>\$ (5,702,724)</u></u>		<u><u>\$ (7,342,854)</u></u>	

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2013

Financial analysis of the board as a whole – continued

Governmental activities – The decrease in net position for governmental activities was \$5,702,724 in 2013.



THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2013

Financial analysis of the Board's funds

The financial performance of the Board as a whole is reflected in its governmental funds. As the Board completed the year, its governmental funds reported a *combined* fund balance of \$897,335, a decrease of \$4,300 from last year's ending fund balance.

Revenues for the Board's governmental funds were \$60,652,712, an increase of \$2,082,460 from fiscal year 2012. Total expenditures were \$60,655,379 for the year, an increase of \$1,548,434 from the prior year.

General Fund – The General Fund includes the primary operations of the Board in providing educational services to students from pre-kindergarten through grade 12, including pupil transportation activities, and maintenance and operations of all school facilities. See Table 3 for a summary of General Fund revenues and expenditures.

Restricted Grants – These funds are used to account for grants from federal, state, and local sources. Grants provide a major source of revenue for specific educational programs not funded by the General Fund. Programs include initiatives for special education students and students from families who are socially and economically deprived. Table 4 reflects the increases (decreases) in grant funds by source over the prior year.

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2013

Table 3

	<u>GENERAL FUND</u>			
	FISCAL YEAR 2013	FISCAL YEAR 2012	INCREASE (DECREASE)	PERCENT INCREASE (DECREASE)
<u>REVENUES</u>				
Talbot County appropriations	\$ 38,321,665	\$ 35,739,007	\$ 2,582,658	7.2
Talbot County - school nurses	543,348	543,348	-	-
State of Maryland	11,421,929	10,929,896	492,033	4.5
State of Maryland share of retirement and pension contribution	2,987,207	3,882,631	(895,424)	(23.1)
Other	<u>59,274</u>	<u>89,345</u>	<u>(30,071)</u>	<u>(33.7)</u>
TOTAL REVENUES	<u>53,333,423</u>	<u>51,184,227</u>	<u>2,149,196</u>	4.2
<u>EXPENDITURES</u>				
Administration	1,027,212	987,647	39,565	4.0
Mid-level administration	3,749,166	3,762,961	(13,795)	(0.4)
Instructional salaries	19,562,347	18,279,173	1,283,174	7.0
Instructional texts and supplies	548,362	695,310	(146,948)	(21.1)
Other instruction costs	572,940	788,130	(215,190)	(27.3)
Special education	3,256,138	3,077,925	178,213	5.8
Student personnel services	219,162	176,416	42,746	24.2
Student transportation	2,581,008	2,533,646	47,362	1.9
Operation of plant and equipment	3,420,648	3,456,861	(36,213)	(1.0)
Maintenance of plant	1,129,668	1,083,262	46,406	4.3
Fixed charges	10,321,287	9,155,009	1,166,278	12.7
Debt service	3,361,658	3,336,001	25,657	0.8
School nurses	543,348	543,348	-	-
State of Maryland share of retirement and pension contribution	<u>2,987,207</u>	<u>3,882,631</u>	<u>(895,424)</u>	<u>(23.1)</u>
TOTAL EXPENDITURES	<u>53,280,151</u>	<u>51,758,320</u>	<u>1,521,831</u>	2.9
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 53,272</u>	<u>\$ (574,093)</u>	<u>\$ 627,365</u>	

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2013

Table 4

	<u>RESTRICTED GRANT REVENUE</u>			
	<u>FISCAL YEAR 2013</u>	<u>FISCAL YEAR 2012</u>	<u>INCREASE</u>	<u>PERCENT INCREASE</u>
Federal Through State	\$ 2,896,911	\$ 2,827,991	\$ 68,920	2.4
State of Maryland	582,377	401,710	180,667	45.0
Other	<u>764,521</u>	<u>501,114</u>	<u>263,407</u>	52.6
TOTAL REVENUES	<u>\$ 4,243,809</u>	<u>\$ 3,730,815</u>	<u>\$ 512,994</u>	13.8

Capital projects fund – The Board has no legal authority to borrow funds for construction. All funds for school construction come from either the transfer of bond proceeds from Talbot County selling capital bonds or from state aid through the Maryland Public School Construction Program (PSCP). During FY 2013, the Board had approved state funding of \$542,298 and funding from Shore Up of \$792,159.

Fiduciary funds – The following funds are accounted for as fiduciary funds:

- (1) Mid-Shore Special Education Consortium: A five (5) county consortium serving Caroline, Dorchester, Kent, Queen Anne's and Talbot County students with disabilities.
- (2) School Activities Accounts: During fiscal year 2013, the Board's nine schools collected revenues and incurred expenditures for various student activities (see Table 5). The Board contracts with an independent Certified Public Accountant to perform an audit of these agency funds on an annual basis. Please refer to the separately issued audited financial statements for the School Activities Fund for specific details.

Table 5

	<u>SCHOOL ACTIVITIES FUND</u>			
	<u>FISCAL YEAR 2013</u>	<u>FISCAL YEAR 2012</u>	<u>INCREASE (DECREASE)</u>	<u>PERCENT INCREASE (DECREASE)</u>
Cash receipts	\$ 780,806	\$ 943,167	\$ (162,361)	(17.2)
Cash expenditures	(757,438)	(1,035,159)	277,721	(26.8)
Beginning cash balances	<u>170,373</u>	<u>257,892</u>	<u>(87,519)</u>	(33.9)
ENDING CASH BALANCES	<u>\$ 193,741</u>	<u>\$ 165,900</u>	<u>\$ 27,841</u>	16.8

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2013

General fund budgetary highlights

The actual General Fund revenues were over budget by \$6,270. Actual expenditures and encumbrances were under budget by \$48,592.

Capital assets and debt administration

Capital assets – By the end of fiscal year 2013, the Board had invested \$118 million in a broad range of capital assets, including land, school buildings, athletic facilities, furniture and equipment. (More detailed information about capital assets can be found in Note 3 to the financial statements). Total depreciation expense for the year was approximately \$4 million.

Long-term liabilities – At year-end, the Board had \$18,802,144 in long-term debt. This amount consists of the following:

- \$474,325 due to Maryland State Retirement and Pension System.
- \$270,764 in notes payable.
- \$17,858,425 in Net OPEB obligation.
- \$198,630 in accrued compensated absences.
- See Notes 6 and 9 for more details.

Factors impacting the school system

The Master Plan for Talbot County Public Schools, required under the Act, provides a five-year action plan to guide the school system in preparing students to be contributing members of a democratic society. The plan directs the use of current and new state, federal and local funds to eliminate achievement gaps among subgroups of students and to challenge each student to higher academic levels. The plan organizes and aligns research-based practices, instructional services, professional development and resource distribution to guide Talbot County Public Schools. Budgets are linked to master plan strategies.

The State Bridge to Excellence in Public Schools and the Federal No Child Left Behind Acts established certain requirements for public school systems. These requirements include, but are not limited to: all students in core academic subjects are taught by “highly qualified” teachers, all students must reach proficiency levels on state assessments by 2014, all economically disadvantaged children must have access to a pre-kindergarten program, new certification and assessment requirements for paraprofessionals, and extensive tracking and reporting requirements. All of these requirements have significant potential cost impacts associated with them.

**THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland**

**Management's Discussion and Analysis (MD&A)
June 30, 2013**

Factors impacting the school system – continued

Beginning with fiscal year 2009, the system was required to adhere to the standard issued by the Government Accounting Standards Board (GASB) for reporting other post employment benefits (OPEB) known as GASB 45. GASB 45 stipulates standards for the measurement, recognition, and display of OPEB expenses and related liabilities and assets, note disclosures and required supplementary information in the financial reports of state and local governmental employers. GASB 45 requires the measurement and disclosure of actuarial accrued liabilities and funded status. Under GASB 45, the Board is not only reporting OPEB expense, but the associated accrued financial obligations. Funding of the obligation is optional. The Board is also required to disclose the funded status of the benefits as of the most recent valuation and to present as Required Supplementary Information (RSI) multi-year trend information about funding progress.

During a special session of the Maryland General Assembly – Teacher Pension Cost – it was determined that the State and Local school boards will share the cost of teacher retirement by phasing in a requirement for school board payment of annual normal cost over a four year period in increments of 50%, 65%, 85%, and 100%. This action outlines the payment required of each school board for fiscal years 2013 through 2016 and the additional maintenance of effort payments required by each county in the same period. The additional cost for fiscal year 2013 was determined to be \$628,456.

Contacting the board's financial management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Office, Talbot County Board of Education, 12 Magnolia Street, P.O. Box 1029, Easton, Maryland 21601.

BASIC FINANCIAL STATEMENTS

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF NET POSITION

June 30, 2013

ASSETS		GOVERNMENTAL ACTIVITIES
		<u> </u>
Cash		\$ 5,922,475
Due from other units of government		559,508
Other receivables		74,879
Inventory		26,402
Capital assets:		
Land, at cost		377,446
Other depreciable assets, at cost		
less accumulated depreciation		<u>63,727,483</u>
 TOTAL ASSETS		 <u><u>\$ 70,688,193</u></u>
 LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts payable		\$ 236,719
Accrued expenditures		4,007,371
Payroll deductions and withholdings		71,863
Advances from grantors		1,200,320
Due to Trust and Agency fund		66
Long-term liabilities:		
Portion due or payable within one year:		
Compensated absences	\$ 169,590	
Notes payable	106,578	
Maryland State Retirement and Pension System	<u>32,337</u>	308,505
Portion due or payable after one year:		
Compensated absences	198,630	
Net OPEB obligation	17,858,425	
Notes payable	270,764	
Maryland State Retirement and Pension System	<u>474,325</u>	<u>18,802,144</u>
 TOTAL LIABILITIES		 <u>24,626,988</u>
 NET POSITION		
Net investment in capital assets		63,727,587
Restricted for food service operations		194,715
Unrestricted deficit		<u>(17,861,097)</u>
 TOTAL NET POSITION		 <u>46,061,205</u>
 TOTAL LIABILITIES AND NET POSITION		 <u><u>\$ 70,688,193</u></u>

The accompanying Notes to Financial Statements
are an integral part of this financial statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION GOVERNMENTAL ACTIVITIES</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	
GOVERNMENTAL ACTIVITIES				
Administration	\$ 1,079,491	\$ -	\$ -	\$ (1,079,491)
Instructional services	26,835,390	-	4,258,085	(22,577,305)
Special education	4,292,390	-	1,837,236	(2,455,154)
Student personnel services	219,162	-	-	(219,162)
Student transportation	2,922,134	-	1,526,962	(1,395,172)
Operation of plant	2,108,900	-	-	(2,108,900)
Maintenance of plant	1,140,668	13,953	-	(1,126,715)
Fixed charges	18,502,937	-	2,987,207	(15,515,730)
Community services	252,968	-	-	(252,968)
Capital outlay	1,201,291	-	-	(1,201,291)
Food service operations	1,939,558	730,345	1,142,389	(66,824)
Debt service	3,361,658	-	3,361,658	-
Interest on long-term debt	14,062	-	-	(14,062)
Depreciation – unallocated	2,483,194	-	-	(2,483,194)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 66,353,803</u>	<u>\$ 744,298</u>	<u>\$ 15,113,537</u>	<u>\$ (50,495,968)</u>
GENERAL REVENUES				
Talbot County appropriations				34,960,007
State of Maryland				8,586,803
Capital outlay/construction funding				1,201,291
Unrestricted investment earnings				10,020
Other revenue				36,756
				<u>44,794,877</u>
TRANSFERS				
Refund of prior year unreserved fund balance to Talbot County				<u>(1,633)</u>
				<u>44,793,244</u>
CHANGE IN NET POSITION				(5,702,724)
NET POSITION, BEGINNING OF YEAR				<u>51,763,929</u>
NET POSITION, END OF YEAR				<u>\$ 46,061,205</u>

The accompanying Notes to Financial Statements
are an integral part of this financial statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	MAJOR FUNDS		NON-MAJOR	TOTAL
	GENERAL	RESTRICTED GRANTS	OTHER	
ASSETS				
Cash	\$ 5,596,964	\$ -	\$ 325,511	\$ 5,922,475
Due from other governments:				
Talbot County	24,812	-	-	24,812
State of Maryland	-	66,055	6,158	72,213
United States government	-	414,355	48,128	462,483
Due from other funds	185,410	870,433	-	1,055,843
Other receivables	483	1,769	72,627	74,879
Inventory	-	-	26,402	26,402
TOTAL ASSETS	\$ 5,807,669	\$ 1,352,612	\$ 478,826	\$ 7,639,107
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 230,314	\$ 3,680	\$ 2,725	\$ 236,719
Accrued expenditures	3,747,772	182,190	77,409	4,007,371
Payroll deductions and withholdings	71,863	-	-	71,863
Due to other funds	870,433	-	185,410	1,055,843
Due to Trust and Agency fund	66	-	-	66
Unearned revenues	15,011	1,166,742	18,567	1,200,320
Compensated absences	169,590	-	-	169,590
TOTAL LIABILITIES	5,105,049	1,352,612	284,111	6,741,772
 FUND BALANCES				
Non-spendable:				
Inventory	-	-	7,836	7,836
Restricted for:				
Fund purposes	-	-	186,879	186,879
Assigned				
Encumbrances	647,758	-	-	647,758
Unassigned	54,862	-	-	54,862
TOTAL FUND BALANCES	702,620	-	194,715	897,335
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,807,669	\$ 1,352,612	\$ 478,826	\$ 7,639,107

The accompanying Notes to Financial Statements
are an integral part of this financial statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

Year Ended June 30, 2013

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS		\$ 897,335
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds:

Cost of assets		118,323,322
Less: accumulated depreciation		(54,218,393)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Net OPEB obligation		17,858,425
Notes payable		377,342
Compensated absences		198,630
Maryland State Retirement and Pension System		506,662
		<hr style="border: 0.5px solid black;"/>

Total long-term liabilities		<u>(18,941,059)</u>
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TOTAL NET POSITION – GOVERNMENTAL ACTIVITIES		<u><u>\$ 46,061,205</u></u>
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The accompanying Notes to Financial Statements
are an integral part of this statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended June 30, 2013

	<u>MAJOR FUNDS</u>		<u>NON-MAJOR</u>	<u>TOTAL</u>
	<u>GENERAL</u>	<u>RESTRICTED GRANTS</u>	<u>OTHER</u>	
REVENUES				
Talbot County	\$ 38,865,013	\$ -	\$ 28,700	\$ 38,893,713
State of Maryland	14,409,136	582,377	452,960	15,444,473
United States Government	-	2,896,911	1,069,861	3,966,772
Other sources:				-
Food service sales	-	-	730,345	730,345
Interest earned	10,020	-	1,455	11,475
Other	49,254	764,521	792,159	1,605,934
TOTAL REVENUES	53,333,423	4,243,809	3,075,480	60,652,712
EXPENDITURES				
Current:				
Administration	1,027,212	82,854	-	1,110,066
Mid-level administration	3,749,166	181,978	-	3,931,144
Instructional salaries	19,562,347	681,482	-	20,243,829
Instructional texts and supplies	548,362	173,821	-	722,183
Other instructional costs	572,940	1,000,713	-	1,573,653
Special education	3,256,138	1,036,252	-	4,292,390
Student personnel service	219,162	-	-	219,162
Student transportation	2,581,008	97,949	-	2,678,957
Operation of plant	3,420,648	38,739	-	3,459,387
Maintenance of plant	1,129,668	11,000	-	1,140,668
Fixed charges	10,321,287	686,053	-	11,007,340
Community services	-	252,968	-	252,968
Capital outlay	-	-	1,201,291	1,201,291
Food service operating expenditures	-	-	1,930,128	1,930,128
Debt service	3,361,658	-	-	3,361,658
On-behalf payments	3,530,555	-	-	3,530,555
TOTAL EXPENDITURES	53,280,151	4,243,809	3,131,419	60,655,379
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	53,272	-	(55,939)	(2,667)
OTHER FINANCING USES				
Refund of prior year fund balance to Talbot County	(1,633)	-	-	(1,633)
NET CHANGE TO FUND BALANCE	51,639	-	(55,939)	(4,300)
FUND BALANCES, BEGINNING OF YEAR	650,981	-	250,654	901,635
FUND BALANCES, END OF YEAR	\$ 702,620	\$ -	\$ 194,715	\$ 897,335

The accompanying Notes to Financial Statements
are an integral part of this statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
WITH THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS \$ (4,300)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. These consist of:

Capital outlays	1,895,249
Depreciation expense and loss on disposal of capital assets	(4,043,691)

Decreases (increases) in long-term liabilities do not require the use of current financial resources and, therefore, are not reported as expenditures or income in governmental funds:

Accrued compensated absences	153,786
Maryland State Retirement System deficit balance	(39,732)
Net OPEB obligation	(3,871,000)

Repayments of long-term debt are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year, these amounts consist of:

Notes Payable	176,166
Maryland State Retirement and Pension System	<u>30,798</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (5,702,724)

The accompanying Notes to Financial Statements
are an integral part of this statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF FIDUCIARY NET POSITION

Year Ended June 30, 2013

	<u>AGENCY FUNDS</u>		
	<u>SPECIAL EDUCATION CONSORTIUM</u>	<u>SCHOOL ACTIVITIES FUND</u>	<u>TOTAL</u>
ASSETS			
Cash	\$ 970,290	\$ 193,741	\$ 1,164,031
Accounts receivable	34,817	-	34,817
Due from general fund	66	-	66
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 1,005,173</u>	<u>\$ 193,741</u>	<u>\$ 1,198,914</u>
 LIABILITIES			
Accrued expenses	\$ 194,344	\$ -	\$ 194,344
Funds held for school activities	-	193,741	193,741
Deferred revenue	810,829	-	810,829
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	<u>\$ 1,005,173</u>	<u>\$ 193,741</u>	<u>\$ 1,198,914</u>

The accompanying Notes to Financial Statements
are an integral part of this statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

The Board of Education of Talbot County, Maryland (the Board) is a component unit of Talbot County, Maryland by virtue of the County's responsibility for levying taxes and its budgetary control over the Board of Education. Accordingly, the financial statements of the Board are included in the financial statements of Talbot County, Maryland.

The accounting policies of the Board of Education of Talbot County conform to generally accepted accounting principles (GAAP) for governmental units. The following is a summary of the significant policies employed by the Board:

Government-wide and fund financial statements – The statement of net position and the statement of activities report information on all of the non-fiduciary activities of the Board of Education of Talbot County as a whole. For the most part, the effect of interfund activity has been removed from these statements. The activities of the general fund (unrestricted current expense fund), special revenue funds (restricted current expense and food service funds), and capital projects fund (school construction fund) have been presented as governmental activities in the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational requirements of a particular program. Local appropriations, state and federal aid, and other items that are not classified as program revenues are presented as general revenues of the Board.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the non-major governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement presentation – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Local appropriations and state and federal aid are recognized as revenues in the year for which they were approved by the provider. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to certain compensated absences are recognized when the obligations are expected to be liquidated with expendable available resources.

Local appropriations and state and federal aid associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria have been met. Expenditure-driven grants are recognized as revenues when the qualifying expenditures have been incurred and all other grant requirements have been met.

Agency funds are custodial in nature and do not measure results of operations or have a measurement focus. Agency funds do, however, use the accrual basis of accounting.

The government reports the following funds in the financial statements:

Major funds

General fund – All financial resources appropriated for current operating expenditures, exclusive of certain restricted funds, are accounted for in the general fund.

Restricted grants fund – This fund is used to account for revenue sources that are legally restricted to expenditures for a specific purpose, such as federal, state, and local grants.

Non-major funds

Food services fund – This fund is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes (school cafeteria operations).

Capital projects fund – This fund accounts for financial resources that are restricted to construction of new buildings, additions and alterations, and acquisition of equipment. Revenue is recognized from bond issues in the year that funds are either transferred or receivable from Talbot County.

Fiduciary funds

Agency Fund – This fund is used to account for the transactions of the student activities funds, which are the direct responsibility of the principal of each of the respective schools, and the Mid-Shore Special Education Consortium for which the Board acts as the processing agent for invoices.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

The accounting policies of the Board conform to accounting principles generally accepted in the United States of America. Accordingly, the Board applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: *Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins.*

Budgets and budgetary accounting – The Talbot County Public Schools operate within the following budget requirements for local educational agencies as specified by state law.

1. The Board must submit an annual school budget in writing to the County Council by February 15 of each year.
2. The County Council must approve the budget ordinance by May 31 of each year.
3. The budget is prepared and approved by major categories as specified in the state law.
4. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except for the inclusion of encumbrances as expenditures. Budget comparisons presented in this report are on a non-GAAP budgetary basis.
5. The Board may transfer funds within the major categories without recourse from the County Council. Transfers between major categories can only be made with the approval of the County Council.
6. Unencumbered appropriations lapse at the end of each fiscal year.

The expenditures under special state and federal restricted programs may exceed budgeted amounts. The grants included in this category are not part of budget categories subject to the spending limitations of the operating budget. Expenditures under these programs are limited to the amounts of the respective grants.

Budget calendar

<u>Approximate Date</u>	<u>Procedure Performed</u>
Mid-November	Department heads and schools submit requests
Early December	Review compilation of department budget requests with Superintendent, Assistant Superintendent, and Directors and establish proposed priority listing
Early January	Board of Education public meeting to review proposed budget
Early February	Regular meeting – Board of Education for final adoption of the proposed budget. Submission of proposed budget to County Council.
Late May/June	Board public workshops on revised budget based on actual appropriation
June	Public meeting(s) to review actual budget allocations and final adoption

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Encumbrances – Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general fund. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Due to/from other funds – All transactions between funds represent “*due to/from other funds*” caused by cash from one fund paying for expenditures or expenses of another. The Board did not incur transactions between funds that would represent lending/borrowing arrangements outstanding at the end of the fiscal year.

Cash deposits – The Board is authorized to invest any monies in any fund or account for which they have custody or control. The types of investments are specified in accordance with Section 6-222 of the Maryland State Finance and Procurement Article.

Article 95, Section 22 of the Annotated Code of Maryland requires that deposits with financial institutions by local boards of education be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution. In addition, this section of the law requires that collateral be of the types specified in the State Finance and Procurement Article, Section 6-202 of the Code (i.e., direct obligations of the United States, or its agencies and/or obligations of states, counties, or municipalities).

Inventory – Inventories of the food service fund are stated at cost, determined on a first-in first-out (FIFO) basis. Food received from the USDA is included at values stated by the USDA, but is offset by a deferred credit until consumed.

Inventories of materials and supplies are charged to expenditures when consumed, rather than when purchased or donated.

Capital assets – Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment are depreciated using the straight-line method over estimated useful lives of 20-50 years for buildings, improvements, and infrastructure, and 5-20 years for equipment.

Assets that have been acquired with funds received through federal grants must be used in accordance with the terms of the grant. Federal regulations require, in some cases, that the Board must reimburse the federal government for any assets which the Board retains for its own use after the termination of the grant unless otherwise provided by the grantor.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Compensated absences – Twelve-month employees earn annual leave at varying rates dependent upon position and length of service. Annual leave generally must be taken by June 30 each year. For support staff, up to ten days may be transferred to the next fiscal year. For administrative staff, up to 20 days may be transferred to the next fiscal year.

Employees earn sick leave at varying rates of 13 to 18 days per year depending upon position and utilization. There is no limit on the accumulation of sick leave. At termination, employees are not paid for accumulated sick leave; however, at retirement, a portion may be used as additional credited service under the retirement plan.

Expenditures in the statement of revenues and expenditures for such items are the amounts accrued during the year that normally would be liquidated with expendable available financial resources. All accrued compensated absences are recorded in the government-wide financial statements. The compensated absences liability attributable to the governmental activities will be liquidated by the general fund.

On behalf payments – The Board recognizes as revenue and expenditures amounts expended on its behalf during the fiscal year for amounts paid by third parties.

Net position – The Board classifies net position in the government-wide financial statements as follows:

Net Investment in Capital Assets – includes the Board's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position – includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The Board typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

Unrestricted Net Position – includes unrestricted liquid assets.

Fund balances – Fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Committed – amounts that can be used only for specific purposes determined by a formal action of the Board of Education members. The Board of Education is the highest level of decision-making authority for the entity. Commitments may be established, modified, or rescinded only through formal actions approved by the Board members.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. These amounts are designated by management.

Unassigned – all other spendable amounts.

When an expenditure is incurred for which both restricted and unrestricted fund balance is available, the Board considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Board considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

(2) Deposits

At June 30, 2013, the reported amount of the Board's bank deposits was \$7,086,506 and the bank balance was \$8,234,926.

The cash in bank was covered by federal depository insurance or by collateral held by the pledging bank's trust department in the Board's name.

The Board is also authorized to invest in the Maryland Local Government Investment Pool (MLGIP), where deposits are recorded at cost. Due to the nature of the MLGIP investment, it is considered a cash equivalent. MLGIP is not covered by the FDIC, but it is collateralized by United States Treasury instruments. The Maryland State Treasurer oversees the MLGIP.

The pool operates in a manner that is similar to that of an open-end mutual fund. Participants' deposits and withdrawals are accounted for as purchases and sales of the pool's capital shares. The amount of net proceeds from the sale of shares represents the gross withdrawals, which are redeemed from the pool's shares during the year. The cost of shares purchased represents the gross deposits, which are invested in the pool's shares during the year. Earnings are remitted directly to participants or invested (or reinvested) in the pool's shares.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(2) Deposits - continued

A separate financial report for the MLGIP can be obtained from www.mlgip.com or by contacting PNC Institutional Investments, One East Pratt Street, 5th Floor West, Baltimore, Maryland 21202.

The components of cash and cash equivalents on the government-wide statements are:

Cash in bank	\$ 2,756,221
Cash equivalents - MGLIP	4,329,785
Cash on hand	<u>500</u>
 Total cash and cash equivalents	 <u>7,086,506</u>
 Less trust and agency cash:	
Mid-Shore Special Education Consortium	970,290
School activities	<u>193,741</u>
Total trust and agency cash	<u>1,164,031</u>
 TOTAL CASH AND CASH EQUIVALENTS (GOVERNMENT WIDE)	 <u><u>\$ 5,922,475</u></u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(3) Capital assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 377,446	\$ -	\$ -	\$ 377,446
Construction in Progress	892,082	-	892,082	-
Total Capital Assets Not Being Depreciated	<u>1,269,528</u>	<u>-</u>	<u>892,082</u>	<u>377,446</u>
Capital Assets Being Depreciated:				
Buildings	91,091,093	1,959,433	-	93,050,526
Land Improvements	1,364,515	-	-	1,364,515
Furniture, Equipment And Vehicles	<u>22,916,087</u>	<u>827,898</u>	<u>213,150</u>	<u>23,530,835</u>
Total Capital Assets Being Depreciated	<u>115,371,695</u>	<u>2,787,331</u>	<u>213,150</u>	<u>117,945,876</u>
Less Accumulated Depreciation for:				
Buildings	32,051,950	2,098,202	-	34,150,152
Land Improvements	587,240	44,133	-	631,373
Furniture, Equipment and Vehicles	<u>17,748,662</u>	<u>1,900,091</u>	<u>211,885</u>	<u>19,436,868</u>
Total Accumulated Depreciation	<u>50,387,852</u>	<u>4,042,426</u>	<u>211,885</u>	<u>54,218,393</u>
Total Capital Assets Being Depreciated, Net	<u>64,983,843</u>	<u>(1,255,095)</u>	<u>1,265</u>	<u>63,727,483</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 66,253,371</u>	<u>\$(1,255,095)</u>	<u>\$ 893,347</u>	<u>\$ 64,104,929</u>

Depreciation expense for the year ended June 30, 2013 was charged to governmental functions as follows:

Support Services	
Instructional Services	\$ 1,116,397
Student Transportation	433,405
Food Services	9,430
Unallocated	<u>2,483,194</u>
 TOTAL	 <u>\$ 4,042,426</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(4) Interfund receivables – payables

Outstanding balances resulting from transactions between funds as of June 30, 2012 consist of the following:

	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
General Fund	\$ 185,410	\$ 870,433
Restricted	870,433	-
Food service	-	112,258
Capital Projects Fund	-	73,152
	\$ 1,055,843	\$ 1,055,843
TOTAL	\$ 1,055,843	\$ 1,055,843

(5) Advances from grantors

Advances from grantors consist of federal and state grants and other advances that have not been expended by June 30, 2013 and consist of the following:

Restricted federal, Maryland and other grant programs	\$ 1,166,742
USDA commodities	18,567
Other sources	15,011
	\$ 1,200,320
TOTAL	\$ 1,200,320

(6) Long-term liabilities

The Board is not obligated to repay principal or interest on any debt incurred for school construction. Such bonds and loans are obligations of the county and state governments. The reporting of county debt service and related revenues in the general fund is required by state laws. Annual debt service expenditures are fully offset by county and state revenues. Debt service principal and interest on bond obligations paid by Talbot County was \$3,361,658 for the year ended June 30, 2013.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(6) Long-term liabilities – continued

The Board's long-term debt at June 30, 2013 consists of the following:

Note payable to Bank of America;
principal and interest payments of \$7,372.48 are
payable monthly through September 29, 2016;
interest is payable at 1.72% per annum;
collateralized by school buses \$ 279,444

Note payable to Branch Bank & Trust Co.
principal and interest payments of \$2,008.61 are
payable monthly through September 5, 2017;
interest is payable at 2.11% per annum;
collateralized by school bus 97,898

TOTAL NOTES PAYABLE \$ 377,342

Aggregate maturities of long-term notes payable at June 30, 2012 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 106,578	\$ 5,995	\$ 112,573
2015	108,514	4,059	112,573
2016	110,485	2,088	112,573
2017	45,760	462	46,222
2018	<u>6,005</u>	<u>21</u>	<u>6,026</u>
TOTAL	<u><u>\$ 377,342</u></u>	<u><u>\$ 12,625</u></u>	<u><u>\$ 389,967</u></u>

State retirement system

State Retirement and Pension System of Maryland
(note 7, funding status); payable annually
through December 2035 \$ 506,662

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(6) Long-term liabilities – continued

The remaining deficit reduction payment schedule authorized by House Bill 430 is as follows:

<u>Year Ending June 30,</u>		
2014	\$	32,337
2015		33,953
2016		35,651
2017		37,434
2018		39,305
2019 - 2023		228,046
2024 - 2028		291,050
2029 - 2033		371,463
2034 - 2036		<u>270,479</u>
Total principal and interest		<u>1,339,718</u>
Less amount representing interest		<u>(833,056)</u>
LIABILITY AS OF JUNE 30, 2013	\$	<u><u>506,662</u></u>

The changes in long-term liabilities for the year ended June 30, 2013 are as follows:

	<u>STATE RETIREMENT SYSTEM</u>	<u>COMPENSATED ABSENCES</u>	<u>NOTES PAYABLE</u>	<u>TOTAL</u>
Balance at June 30, 2012	\$ 497,728	\$ 352,416	\$ 553,508	\$ 1,403,652
Increases	39,732	491,485	-	531,217
Payments	<u>(30,798)</u>	<u>(475,681)</u>	<u>(176,166)</u>	<u>(682,645)</u>
Balance at June 30, 2013	<u>\$ 506,662</u>	<u>\$ 368,220</u>	<u>\$ 377,342</u>	<u>\$ 1,252,224</u>

The increase to the State Retirement System debt is related to an actuarial valuation that produced updated principal balances and was communicated to Talbot County Board of Education on October 25, 2012.

(7) Pension plans

Plan description – The Board contributes to the State Retirement and Pension System (SRPS), a cost sharing multiple-employer defined benefit pension plan administered by the State of Maryland. SRPS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Article 73B of the Annotated Code of the State of Maryland assigns the authority to establish and amend benefit provisions to the SRPS Board of Trustees. The State of Maryland issues a publicly available financial report that includes financial statements and required supplementary information for SRPS. That report may be obtained by writing to Maryland State Retirement and Pension System, 301 West Preston Street, Baltimore, Maryland 21202.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(7) Pension plans - continued

Funding policy – Employees are members of either the retirement system (older plan) or the pension system (newer plan) based upon their date of hire. Members of the retirement and pension system are required to contribute 7% of compensation to the plan. The Board is required to contribute at actuarially determined rates, which are currently 13.29% of covered compensation for teachers and 12.29% for classified employees. The contribution requirements of plan members and the Board are established, and may be amended by, the SRPS Board of Trustees.

The State makes a substantial portion of the Board’s annual required contributions to the Teachers systems on behalf of the Board. The State’s contributions on behalf of the Board to the Teachers systems for the year ended June 30, 2013, amounted to \$2,987,207. The fiscal 2013 contributions made by the State on behalf of the Board have been included as both revenues and expenditures in the general fund in the accompanying statement of activities and statement of revenues, expenditures, and changes in fund balances. The Board makes the entire employer required annual contributions to the employees systems as well as those that relate to positions in the teachers systems funded through federal and state restricted programs.

Employer’s payroll and contributions under the plans – The employer’s total payroll covered under the various state plans, and contributions paid are as follows for the three most recent fiscal years:

	2013	2012	2011
Total Payroll	\$ 34,004,952	\$ 31,984,931	\$ 32,628,054
Payroll Covered Under the Plans	\$ 31,804,861	\$ 30,368,275	\$ 30,917,375
Contributions Paid In:			
Board Payments	\$ 1,389,615	\$ 815,161	\$ 725,295
State On-Behalf Payments	\$ 2,987,207	\$ 3,882,631	\$ 3,756,748

Funding status – As a result of a first time actuarial study of the State Retirement and Pension System of Maryland, the Talbot County Board of Education was identified as one of 23 municipal corporations not having enough assets available to fund the present value of accrued benefits for participants in the retirement system. Under the rules of House Bill 1338, the original deficit amount was determined to be \$925,482 as of June 30, 1996, to be repaid over a period of 40 years. The Board was granted relief of \$210,003 (as of June 30, 1996) by HB1348 enacted in 1997 and further relief of \$210,003 (as of June 30, 1996) by HB430 which was enacted in 1998. The fiscal year 2013 payment was \$30,978. See Note 6 for the remaining years’ payment stream. The payments reflect a pattern which increases by 5% per year for the next 24 years.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(7) Pension plans – continued

During a special session of the Maryland General Assembly – Teacher Pension Cost – it was determined that the State and Local school boards will share the cost of teacher retirement by phasing in a requirement for school board payment of annual normal cost over a four year period in increments of 50%, 65%, 85%, and 100%. This action outlines the payment required of each school board for fiscal years 2013 through 2016 and the additional maintenance of effort payments required by each county in the same period. The additional cost for fiscal year 2013 was determined to be \$628,456 and is reflected in the above table.

(8) On-behalf payments

The Board recognized the following on-behalf payments for the fiscal year ended June 30, 2013:

Pension contribution by the State of Maryland to the state retirement system for the applicable employees of the Board	\$ 2,987,207
School nurses provided by Talbot County, Maryland Health Department	<u>543,348</u>
TOTAL ON-BEHALF PAYMENTS	<u><u>\$ 3,530,555</u></u>

(9) Other postemployment benefits

Plan description – The Talbot County Public Schools Retiree Health Plan (Plan) is a single-employer defined benefit healthcare plan that is administered by the Talbot County Public Schools (Board) and covers retired employees of the Board and their dependents. The Plan provides for the payment of a portion or all of the health insurance premiums for eligible retired employees depending on their position that was held and length of service. The Board has the authority to establish and amend benefit provisions of the Plan. The Plan does not issue a separate, publicly available report.

Funding policy – Premiums and other contributions for the Boards' share of the cost of the group programs may be paid, as determined by the Board, from the assets of the Board. Premium payments for some programs may require contributions by the participant as well as the Board. The frequency and amount of such contributions shall be established from time to time by the County.

Plan members receiving benefits contribute a percentage of the monthly insurance premium. The Talbot County Public Schools Retiree Health Plan pays 66% of the individual premium for each insured retiree who has at least 8 years of service. Retirees with less than 8 years of service are allowed access, but must pay 100% of the published rates.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(9) Other postemployment benefits - continued

Annual OPEB cost and net OPEB obligation – The Board's annual other post employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation to Talbot County Public Schools Retiree Health Plan:

Annual required contribution	\$ 5,274,000
Interest on net OPEB obligation	559,000
Adjustment to annual required contribution	<u>(559,000)</u>
Annual OPEB cost (expense)	5,274,000
Contributions made	<u>(1,403,000)</u>
Increase in net OPEB obligation	3,871,000
Net OPEB obligation – beginning of year	<u>13,987,425</u>
Net OPEB obligation – end of year	<u><u>\$ 17,858,425</u></u>

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 and preceding two years was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2013	\$ 5,274,000	26.60%	\$ 17,858,425
6/30/2012	\$ 4,308,000	30.34%	\$ 13,987,425
6/30/2011	\$ 4,039,000	29.36%	\$ 9,236,000

Funded status and funding progress – As of the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$58,337,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$58,337,000. The covered payroll (annual payroll of active employees covered by the plan) was \$31,804,861, and the ratio of the UAAL to the covered payroll was 183.4 percent.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(9) Other postemployment benefits – continued

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, a projected salary increase of 4% per year, and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 4.9%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 was 26 years.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(10) Budget reconciliation

The accompanying schedule of revenues, expenditures and encumbrances – budget and actual has been prepared on a legally prescribed budgetary basis of accounting which differs from generally accepted accounting principles (GAAP). The purpose of the budgetary basis of accounting is to demonstrate compliance with the legal requirements of Talbot County and the State of Maryland. The difference between the two methods is set forth below.

	GENERAL FUND	RESTRICTED GRANTS FUND
REVENUES		
Budgetary basis	\$ 46,441,210	\$ 3,888,981
Net encumbrance adjustment	-	354,828
Debt service paid by Talbot County, MD	3,361,658	-
State and County – on-behalf payments	3,530,555	-
MODIFIED ACCRUAL BASIS	\$ 53,333,423	\$ 4,243,809
EXPENDITURES		
Budgetary basis	\$ 46,386,348	\$ 3,888,981
Net encumbrance adjustment	1,590	354,828
Debt service paid by Talbot County, MD	3,361,658	-
State and County – on-behalf payments	3,530,555	-
MODIFIED ACCRUAL BASIS	\$ 53,280,151	\$ 4,243,809

(11) Risk management

General insurance – The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the Maryland Association of Boards of Education Group Insurance and Workers Compensation Pools (MABE), which provide casualty and property insurance, and workers compensation coverage. MABE operates as authorized by Section 482B of Article 84A of the Annotated Code of Maryland. The Board pays an annual premium to MABE for its insurance coverage. The agreement for formation of MABE provides that it will be self-sustaining through member premiums and will reinsure through commercial companies as specified in the agreement. As of June 30, 2013, MABE had total pool surplus of approximately \$18 million. It is believed that there are no outstanding claims in excess of the equity.

MABE publishes its own audited financial report based on a June 30 year-end. This report may be obtained from Maryland Association of Boards of Education Group Insurance Pool, 621 Ridgely Avenue, Suite 300, Annapolis, Maryland 21401.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(11) Risk management – continued

Health insurance – The Board participates in the Eastern Shore of Maryland Education Consortium Health Insurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for health insurance coverage. Currently, only five counties are participating in the alliance for their health insurance coverage.

The agreement for formation of the alliance provides that the pool will be self-sustaining through member premiums. These funds have been invested in the PNC Local Government Investment Pool.

The pooling agreement allows for the pool, which is administered by Carefirst Blue Cross/Blue Shield of Maryland, to make additional assessments to make the pool self-sustaining. As of the date of this report, it is believed that there are no outstanding claims in excess of the equity of the trust.

(12) Subsequent events

On July 17, 2013, the Board approved a lease purchase of four school buses over five years. The total cost of the lease, including interest, is \$515,449, which is payable in sixty equal monthly installments of \$8,591.

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES –
BUDGET AND ACTUAL – GENERAL FUND AND RESTRICTED GRANTS

Year Ended June 30, 2013

	<u>GENERAL FUND</u>			<u>RESTRICTED GRANTS - SEE NOTE 1</u>		
	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE – FAVORABLE (UNFAVORABLE)</u>	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE – FAVORABLE (UNFAVORABLE)</u>
REVENUES						
Talbot County	\$ 34,960,007	\$ 34,960,007	\$ -	\$ -	\$ -	\$ -
State of Maryland	11,417,933	11,421,929	3,996	408,049	623,741	215,692
United States Government	-	-	-	3,119,481	2,912,725	(206,756)
Other sources:						
Interest earned	20,000	10,020	(9,980)	-	-	-
Other	37,000	49,254	12,254	400,000	352,515	(47,485)
TOTAL REVENUES	<u>46,434,940</u>	<u>46,441,210</u>	<u>6,270</u>	<u>3,927,530</u>	<u>3,888,981</u>	<u>(38,549)</u>
EXPENDITURES AND ECUMBRANCES						
Administration	1,026,287	1,025,921	366	42,259	85,660	(43,401)
Mid-level administration	3,762,083	3,762,069	14	154,584	182,097	(27,513)
Instructional salaries	19,567,049	19,562,348	4,701	688,613	681,482	7,131
Instructional texts and supplies	557,826	555,637	2,189	63,677	204,121	(140,444)
Other instructional costs	612,456	604,010	8,446	956,417	575,547	380,870
Special education	3,256,427	3,256,192	235	1,194,743	1,060,197	134,546
Student personnel services	202,523	202,275	248	-	-	-
Student transportation	2,569,133	2,565,216	3,917	-	97,948	(97,948)
Operation of plant	3,438,462	3,417,183	21,279	-	38,739	(38,739)
Maintenance of plant	1,115,756	1,114,210	1,546	-	10,000	(10,000)
Fixed charges	10,326,938	10,321,287	5,651	511,677	686,053	(174,376)
Community services	-	-	-	315,560	267,137	48,423
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>46,434,940</u>	<u>46,386,348</u>	<u>48,592</u>	<u>3,927,530</u>	<u>3,888,981</u>	<u>38,549</u>
EXCESS OF REVENUES OVER EXPENDITURES AND ENCUMBRANCES	<u>\$ -</u>	<u>\$ 54,862</u>	<u>\$ 54,862</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF FUNDING PROGRESS

Year Ended June 30, 2013

<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
7/1/2013	\$ -	\$ 58,837,000	\$ 58,837,000	0.00%	\$ 31,804,861	185.0%
7/1/2012	\$ -	\$ 50,087,000	\$ 50,087,000	0.00%	\$ 30,368,275	164.9%
7/1/2011	\$ -	\$ 47,141,000	\$ 47,141,000	0.00%	\$ 30,917,375	152.5%

OTHER ADDITIONAL INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

COMBINING BALANCE SHEET – NON-MAJOR FUNDS

Year Ended June 30, 2013

	<u>FOOD SERVICES</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
ASSETS			
Cash	\$ 325,511	\$ -	\$ 325,511
Due from other governments			
Talbot County	-	-	-
State of Maryland	5,633	525	6,158
United States government	48,128	-	48,128
Other receivables	-	72,627	72,627
Inventory	26,402	-	26,402
	<u>26,402</u>	<u>-</u>	<u>26,402</u>
TOTAL ASSETS	<u>\$ 405,674</u>	<u>\$ 73,152</u>	<u>\$ 478,826</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 2,725	\$ -	\$ 2,725
Accrued expenditures	77,409	-	77,409
Due to other funds	112,258	73,152	185,410
Advanced commodities	18,567	-	18,567
TOTAL LIABILITIES	<u>210,959</u>	<u>73,152</u>	<u>284,111</u>
Fund balances:			
Nonspendable	7,836	-	7,836
Restricted	186,879	-	186,879
TOTAL FUND BALANCES	<u>194,715</u>	<u>-</u>	<u>194,715</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 405,674</u>	<u>\$ 73,152</u>	<u>\$ 478,826</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – NON-MAJOR FUNDS

Year Ended June 30, 2013

	<u>FOOD SERVICES</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
REVENUES			
Talbot County	\$ -	\$ 28,700	\$ 28,700
State of Maryland	72,528	380,432	452,960
United States Government	1,069,861	-	1,069,861
Other Sources:			
Food service sales	730,345	-	730,345
Interest income	1,455	-	1,455
Other - Head Start	-	792,159	792,159
TOTAL REVENUES	<u>1,874,189</u>	<u>1,201,291</u>	<u>3,075,480</u>
EXPENDITURES			
Current:			
Capital outlay	-	1,201,291	1,201,291
Food services	1,930,128	-	1,930,128
TOTAL EXPENDITURES	<u>1,930,128</u>	<u>1,201,291</u>	<u>3,131,419</u>
 CHANGE IN FUND BALANCES	 (55,939)	 -	 (55,939)
 FUND BALANCES, BEGINNING OF YEAR	 <u>250,654</u>	 <u>-</u>	 <u>250,654</u>
 FUND BALANCES, END OF YEAR	 <u>\$ 194,715</u>	 <u>\$ -</u>	 <u>\$ 194,715</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF REVENUES – GENERAL FUND

Year Ended June 30, 2013

TALBOT COUNTY FUNDS

Current appropriations	\$ 34,331,551	
Pension appropriation	628,456	
Debt service	3,361,658	
On behalf payments - school nurses	543,348	
Total Talbot County Funds	<u>543,348</u>	\$ 38,865,013

STATE OF MARYLAND FUNDS

Current expenses	4,333,301	
Compensatory education	4,239,091	
Transportation	1,526,962	
Students with disabilities – formula	764,611	
Limited english – proficient	543,553	
Out of county living	14,411	
On behalf payments - pension	2,987,207	
Total State of Maryland Funds	<u>2,987,207</u>	14,409,136

OTHER SOURCES

Out of county living	28,568	
Interest earned	10,020	
Miscellaneous	3,635	
Building rental	13,953	
Sale of equipment	3,098	
Total Other Sources	<u>3,098</u>	<u>59,274</u>

TOTAL GENERAL REVENUES \$ 53,333,423

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
SCHOOL ACTIVITIES FUND (AGENCY FUND)

Year Ended June 30, 2013

	<u>CASH JUNE 30, 2012</u>	<u>CASH RECEIPTS</u>	<u>CASH DISBURSED</u>	<u>CASH JUNE 30, 2013</u>
Easton High School	\$ 48,926	\$ 318,393	\$ 309,452	\$ 57,867
St. Michaels High School	30,283	122,860	130,858	22,285
Easton Middle School	16,313	109,810	103,557	22,566
Easton Elementary School - Dobson	12,673	22	12,695	-
Easton Elementary School - Moton	10,991	91,887	70,741	32,137
St. Michaels Elementary/Middle School	16,104	38,670	36,676	18,098
Tilghman Elementary School	1,347	13,560	11,998	2,909
White Marsh Elementary School	20,255	36,362	34,906	21,711
Chapel District Elementary School	<u>13,481</u>	<u>49,242</u>	<u>46,555</u>	<u>16,168</u>
TOTALS	<u><u>\$ 170,373</u></u>	<u><u>\$ 780,806</u></u>	<u><u>\$ 757,438</u></u>	<u><u>\$ 193,741</u></u>



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Report on Compliance for Each Major Federal Program

We have audited the Board of Education of Talbot County, Maryland's (the Board) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Board's major federal programs for the year ended June 30, 2013. The Board's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Board's compliance.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Opinion on Each Major Federal Program

In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Easton, Maryland
September 23, 2013

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

GRANT NAME	CFDA #	MSDE/FED GRANT #	PROJECT PERIOD	GRANT AWARD	ACCRUED (DEFERRED) 7/1/12	CASH RECEIVED 7/1/12 - 6/30/13	REVENUE RECOGNIZED/ EXPENDITURES	ADJUST. & CASH RET'D TO MSDE	ACCRUED (DEFERRED) 6/30/13
<u>DEPARTMENT OF EDUCATION</u>									
<i>Title 1 Grants</i>									
Title 1	84.010	124543-01	07/01/11 - 06/30/13	\$ 718,860	78,030	131,503	52,033	1,440	-
Title 1	84.010	125503-01	11/01/11 - 10/31/12	\$ 79,179	(23,754)	55,425	79,179	-	-
Title 1	84.010	134406-01	07/01/12 - 06/30/14	\$ 748,981	-	429,930	564,856	-	134,926
Title 1 School Improvement	84.010	135003-02	07/01/12 - 10/31/13	\$ 99,300	-	31,436	58,034	-	26,598
Title 1 1003 (a) Focus and Approaching Target Schools	84.010	135173-02	07/01/12 - 09/30/13	\$ 100,986	-	100,147	100,952	-	805
Title 1 School Improvement	84.010	135061-02	07/01/12 - 10/31/13	\$ 30,500	-	24,975	30,125	-	5,150
					54,276	773,416	885,179	1,440	167,479
<i>Special Education - Grants to States</i>									
Family Support Coordinator	84.027	114575-01	07/01/10 - 09/30/11	\$ 4,972	195	-	-	-	195
Alt Md. Assessment	84.027	114605-01	07/01/10 - 09/30/11	\$ 14,500	(248)	-	163	85	-
Infant & Toddler	84.027	114241-02	07/01/10 - 09/30/11	\$ 5,678	(122)	-	-	-	(122)
Passthrough Carryover	84.027	115935-01	12/16/10 - 06/30/11	\$ 247,435	(4,487)	-	4,487	-	-
Part B - Passthrough	84.027	114606-01	07/01/11 - 09/30/12	\$ 935,623	(1,261)	-	1,261	-	-
Part B - State Grants	84.027	124261-01	07/01/11 - 09/30/12	\$ 921,284	130,252	176,607	46,355	-	-
Part B - Partners	84.027	124261-06	07/01/11 - 09/30/12	\$ 10,000	(986)	300	1,286	-	-
Part B - SECAC	84.027	124261-07	07/01/11 - 09/30/12	\$ 2,500	40	1,630	1,313	277	-
Part B - Governors Transition	84.027	124261-08	07/01/11 - 09/30/12	\$ 6,000	-	787	787	-	-
Part B - PDP	84.027	124261-09	07/01/11 - 09/30/12	\$ 10,329	(796)	-	796	-	-
Part B - Mid Shore Consortium	84.027	124261-10	07/01/11 - 09/30/12	\$ 285,000	20,000	20,000	-	-	-
Aid to Education - Infants and Toddlers	84.027	124371-02	07/01/11 - 09/30/12	\$ 4,599	60	500	440	-	-
Part B - State Grants	84.027	124607-01	07/01/11 - 09/30/12	\$ 16,000	320	11,539	8,382	-	(2,837)
Aid to Education - Infants and Toddlers	84.027	125315-01	12/01/11 - 09/30/12	\$ 6,000	121	5,100	4,979	-	-
Part B - Passthrough	84.027	125488-01	10/01/11 - 06/30/12	\$ 185,511	105,689	105,689	-	-	-
Part B - PPPSS	84.027	134277-02	07/01/12 - 09/30/13	\$ 17,224	-	3,653	2,213	-	(1,440)
Part B - Passthrough	84.027	134277-01	07/01/12 - 09/30/13	\$ 932,568	-	742,754	887,412	-	144,658
College and Career Readiness	84.027	134277-07	07/01/12 - 09/30/13	\$ 10,000	-	4,301	2,951	-	(1,350)
Partners for Success	84.027	134277-05	07/01/12 - 09/30/13	\$ 15,000	-	14,354	15,000	-	646

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

GRANT NAME	CFDA #	MSDE/FED GRANT #	PROJECT PERIOD	GRANT AWARD	ACCRUED	CASH	REVENUE	ADJUST. &	ACCRUED	
					(DEFERRED) 7/1/12	RECEIVED 7/1/12 - 6/30/13	RECOGNIZED/ EXPENDITURES	CASH RET'D TO MSDE	(DEFERRED) 6/30/13	
<u>DEPARTMENT OF EDUCATION - CONTINUED</u>										
Local Priority Flexibility	84.027	134277-08	07/01/12 - 09/30/12	\$ 50,694	-	24,742	25,731	-	989	
Part B - Infant and Toddlers	84.027	134361-05	07/01/12 - 09/30/13	\$ 2,176	-	1,176	2,176	-	1,000	
Part B - Infant and Toddlers	84.027	134361-02	07/01/12 - 09/30/13	\$ 4,900	-	2,900	4,900	-	2,000	
SE Advisory Committee	84.027	134277-06	07/01/12 - 09/30/13	\$ 2,500	-	1,376	1,814	-	438	
Part B - Mid Shore Consortium	84.027	134277-09	07/01/12 - 09/30/13	\$ 275,000	-	245,000	271,280	-	26,280	
Preschool Passthrough	84.027	135142-01	10/01/12 - 06/30/13	\$ 8,242	-	2,064	-	-	(2,064)	
						<u>248,777</u>	<u>1,364,472</u>	<u>1,283,726</u>	<u>362</u>	<u>168,393</u>
<i>Vocational Education - Basic Grants to States</i>										
Career & Technology Education	84.048	114677-01	07/01/10 - 06/30/11	\$ 55,522	(1,605)	-	1,605	-	-	
CTE Reserve Fund	84.048	114676-01	07/01/10 - 06/30/11	\$ 19,005	(266)	-	266	-	-	
Title IC Program Improvements	84.048	125082-01	07/01/11 - 06/30/12	\$ 51,146	3,364	3,364	-	-	-	
Title IC Program Improvements	84.048	125147-01	07/01/11 - 06/30/12	\$ 23,551	2,851	2,851	-	-	-	
Title IC Program Improvements	84.048	134779-01	07/01/12 - 06/30/13	\$ 49,998	-	34,125	43,908	-	9,783	
Title IC Program Improvements	84.048	134955-01	07/01/12 - 08/31/13	\$ 9,605	-	4,529	6,762	-	2,233	
						<u>4,344</u>	<u>44,869</u>	<u>52,541</u>	<u>-</u>	<u>12,016</u>
<i>Special Education - Preschool Grants</i>										
Part B Preschool Passthrough	84.173	124261-03	07/01/11 - 09/30/12	\$ 18,580	(2,787)	15,479	18,266	-	-	
Part B Preschool PPPS	84.173	124261-04	07/01/11 - 09/30/12	\$ 310	(47)	-	-	47	-	
Part B Preschool Consortium	84.173	124261-05	07/01/11 - 09/30/12	\$ 100,000	2,000	2,000	-	-	-	
Part B Infants and Toddlers	84.173	124371-03	07/01/11 - 06/30/12	\$ 5,000	480	500	20	-	-	
Part B Preschool	84.173	124560-02	07/01/11 - 09/30/12	\$ 8,660	(1,219)	4,042	3,963	-	(1,298)	
Part B Preschool	84.173	125662-02	07/01/11 - 09/30/12	\$ 176	(266)	70	-	336	-	
Part B Preschool PPPSS	84.173	134277-04	07/01/12 - 09/30/13	\$ 649	-	316	649	-	333	
Infant and Toddlers Part B 619	84.173	134361-03	07/01/12 - 09/30/13	\$ 5,000	-	3,000	5,000	-	2,000	
Part B - Preschool Passthrough	84.173	134277-03	07/01/12 - 09/30/13	\$ 18,185	-	18,185	291	-	(17,894)	
Maryland Model for School Readiness	84.173	134536-03	07/01/12 - 09/30/13	\$ 13,300	-	2,557	562	-	(1,995)	
Part B Preschool Consortium	84.173	134277-12	07/01/12 - 09/30/13	\$ 100,000	-	90,000	98,537	-	8,537	
Preschool Passthrough	84.173	135142-02	10/01/12 - 06/30/13	\$ 304	-	46	-	-	(46)	
						<u>(1,839)</u>	<u>136,195</u>	<u>127,288</u>	<u>383</u>	<u>(10,363)</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

GRANT NAME	CFDA #	MSDE/FED GRANT #	PROJECT PERIOD	GRANT AWARD	ACCRUED (DEFERRED) 7/1/12	CASH RECEIVED 7/1/12 - 6/30/13	REVENUE RECOGNIZED/ EXPENDITURES	ADJUST. & CASH RET'D TO MSDE	ACCRUED (DEFERRED) 6/30/13
DEPARTMENT OF EDUCATION - CONTINUED									
<i>Special Education - Grants for Infants and Families With Disabilities</i>									
Infants and Toddlers	84.181	124371-01	07/01/11 - 06/30/12	\$ 26,695	(46)	2,162	2,208	-	-
Infants and Toddlers	84.181	125662-01	10/01/11 - 06/30/12	\$ 5,416	4,604	4,604	-	-	-
Infants and Toddlers	84.181	134361-01	07/01/12 - 09/30/13	\$ 26,441	-	27,408	28,441	-	1,033
					4,558	34,174	30,649	-	1,033
<i>English Language Acquisition Grants</i>									
English Language Acquisition	84.365A	115193-01	07/01/10 - 09/30/12	\$ 33,205	-	-	-	-	-
English Language Acquisition	84.365	124300-01	07/01/11 - 09/30/13	\$ 36,682	8,929	12,627	3,698	-	-
English Language Acquisition	84.365A	134225-01	07/01/12 - 09/30/14	\$ 36,997	-	27,911	34,385	-	6,474
English Language Acquisition	84.365	135341-01	05/01/12 - 09/30/14	\$ 22,355	-	-	-	-	-
					8,929	40,538	38,083	-	6,474
<i>Improving Teacher Quality State Grants</i>									
Improving Teacher Quality	84.367	900564-01	07/01/08 - 06/30/10	\$ 231,926	(123)	-	-	123	-
Improving Teacher Quality	84.367	114286-01	07/01/10 - 06/30/12	\$ 236,123	28,464	28,464	-	-	-
Improving Teacher Quality	84.367	124218-01	07/01/11 - 06/30/13	\$ 198,901	31,545	93,988	81,176	-	18,733
Title II A Disciplinary Literacy	84.367	135161-01	02/01/13 - 09/30/13	\$ 56,919	-	-	21,901	-	21,901
Improving Teacher Quality	84.367	134602-02	07/01/12 - 06/30/14	\$ 199,724	-	127,687	138,744	-	11,057
Improving Teacher Quality	84.367	134602-01	07/01/12 - 06/30/13	\$ 1,578	-	237	-	-	(237)
					59,886	250,376	241,821	123	51,454
<i>Race to the Top Fund - ARRA</i>									
Race to the Top	84.395	115757-03	08/25/10 - 09/30/14	\$ 25,000	-	-	-	-	-
Race to the Top	84.395	115757-02	08/25/10 - 09/30/14	\$ 157,890	29,348	81,068	69,286	-	17,566
Race to the Top - Educator Effectiveness	84.395	125251-01	10/21/11 - 09/30/12	\$ 6,400	5,209	6,400	2,820	-	1,629
Race to the Top - ESOL Stipends	84.395	125384-01	10/01/11 - 09/30/12	\$ 7,500	3,069	2,500	-	(569)	-
Race to the Top - ESOL Stipends	84.395	125384-02	10/01/11 - 09/30/12	\$ 2,500	2,687	2,500	-	(187)	-

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

GRANT NAME	CFDA #	MSDE/FED GRANT #	PROJECT PERIOD	GRANT AWARD	ACCRUED (DEFERRED) 7/1/12	CASH RECEIVED 7/1/12 - 6/30/13	REVENUE RECOGNIZED/ EXPENDITURES	ADJUST. & CASH RET'D TO MSDE	ACCRUED (DEFERRED) 6/30/13
<u>DEPARTMENT OF EDUCATION - CONTINUED</u>									
Race to the Top - Equipment	84.395	115757-01	12/19/11 - 09/30/12	\$ 224,270	-	33,641	-	-	(33,641)
Race to the Top - Educator Effectiveness	84.395	125630-01	04/01/12 - 09/30/12	\$ 10,640	-	10,640	10,640	-	-
Race to the Top - Teacher Induction	84.395	125630-02	04/01/12 - 09/30/12	\$ 375	-	375	375	-	-
Race to the Top - Infrastructure Upgrades	84.395	125716-01	07/01/12 - 06/30/13	\$ 204,548	-	201,676	204,512	-	2,836
Race to the Top - ESOL Stipends	84.395	134851-01	07/01/12 - 06/30/13	\$ 2,500	-	-	-	-	-
Race to the Top - Educator Effectiveness	84.395	135317-01	04/01/13 - 09/30/13	\$ 26,575	-	-	282	-	282
Race to the Top - Educator Effectiveness	84.395	135317-02	04/01/13 - 09/30/13	\$ 1,125	-	-	-	-	-
					40,313	338,800	287,915	(756)	(11,328)
<u>ARRA</u>									
Education Jobs Fund	84.410	115735-01	08/10/10 - 09/30/12	\$ 463,290	-	-	-	-	-
Education Jobs Fund	84.410	125611-01	08/10/10 - 09/30/12	\$ 6,858	-	-	-	-	-
Education Jobs Fund	84.410	134324-01	08/10/10 - 09/30/12	\$ 415	-	415	415	-	-
					-	415	415	-	-
<u>ARRA</u>									
Head Start	93.708	135096-01	12/01/12 - 08/31/13	\$ 3,000	-	-	1,071	-	1,071
TOTAL DEPARTMENT OF EDUCATION					419,244	2,983,255	2,948,688	1,552	386,229
<u>DEPARTMENT OF HEALTH & HUMAN SERVICES</u>									
<u>State Children's Insurance Program</u>									
Medicaid	93.767	On-Going	On-Going	On-Going	(27,749)	-	-	27,749	-
<u>Health Care Financing Administration</u>									
Medicaid	93.778	On-Going	On-Going	On-Going	(49,775)	-	58	49,717	-
Medicaid	93.778	On-Going	On-Going	On-Going	(25,458)	-	-	25,458	-
Medicaid	93.778	On-Going	On-Going	On-Going	(304,721)	48,471	98,478	150,482	(104,232)
Medicaid	93.778	On-Going	On-Going	On-Going	(27,897)	1,790	1,790	27,897	-
					(407,851)	50,261	100,326	253,554	(104,232)
TOTAL DEPARTMENT OF HEALTH & HUMAN SERVICES					(435,600)	50,261	100,326	281,303	(104,232)

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

GRANT NAME	CFDA #	MSDE/FED GRANT #	PROJECT PERIOD	GRANT AWARD	ACCRUED (DEFERRED) 7/1/12	CASH RECEIVED 7/1/12 - 6/30/13	REVENUE RECOGNIZED/ EXPENDITURES	ADJUST. & CASH RET'D TO MSDE	ACCRUED (DEFERRED) 6/30/13
DEPARTMENT OF AGRICULTURE									
<i>Food Distribution</i>									
USDA Commodities	10.555	n/a	07/01/12 - 06/30/13	n/a	-	100,548	100,548	-	-
<i>Child Nutrition Cluster</i>									
National School Lunch Program	10.555	Section 4	7/1/2011 - 6/30/2012	\$ 680,292	20,031	20,031	-	-	-
National School Lunch Program	10.555	Section 11	7/1/2011 - 6/30/2012	\$ 16,769	475	475	-	-	-
School Breakfast Program	10.553	SN Breakfast	7/1/2011 - 6/30/2012	\$ 219,773	7,014	7,014	-	-	-
Summer Food	10.559	SFSP	7/1/2011 - 6/30/2012	\$ 3,122	3,122	3,122	-	-	-
National School Lunch Program	10.555	Section 4	7/1/2012 - 6/30/2013	\$ 654,579	-	635,382	654,579	-	19,197
National School Lunch Program	10.555	Section 11	7/1/2012 - 6/30/2013	\$ 36,870	-	35,873	36,870	-	997
National School Lunch Program	10.555	PBR	7/1/2012 - 6/30/2013	\$ 18,610	-	-	18,610	-	18,610
School Breakfast Program	10.553	SN Breakfast	7/1/2012 - 6/30/2013	\$ 246,263	-	238,478	246,263	-	7,785
Summer Food	10.559	SFSP	7/1/2012 - 6/30/2012	\$ 12,991	-	12,991	12,991	-	-
					<u>30,642</u>	<u>953,366</u>	<u>969,313</u>	<u>-</u>	<u>46,589</u>
Hunger-Free Kids Meal Pattern	10.560	135391-01	05/01/13 - 05/31/14	\$ 4,952	-	-	-	-	-
TOTAL DEPARTMENT OF AGRICULTURE					<u>30,642</u>	<u>1,053,914</u>	<u>1,069,861</u>	<u>-</u>	<u>46,589</u>
TOTAL FEDERAL AWARDS					<u>\$ 14,286</u>	<u>\$ 4,087,430</u>	<u>\$ 4,118,875</u>	<u>\$ 282,855</u>	<u>\$ 328,586</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(1) Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards includes all federal grants of the Board which had financial activity during the fiscal year or accrued (deferred) grant revenue at June 30, 2013. This schedule has been prepared in accordance with accounting principles generally accepted in the United States of America and the requirements of the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and amendments by the Maryland State Department of Education. Because the schedule presents only a selected portion of the operations of the Board, it is not intended to and does not present the net position or changes in net assets of the Board.

(2) Summary of significant accounting policies

Expenditures – Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Education Institutions* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Accrued and deferred reimbursement – Various reimbursement procedures are used for federal awards received by the Board. Consequently, timing differences between expenditures and program reimbursements can exist at the beginning and ending of the fiscal year. Accrued balances at year-end represent an excess of reimbursable expenditures to date. Generally, accrued or deferred balances caused by differences in the timing of cash receipts and expenditures will be reversed in the remaining grant period or subsequent fiscal year.

(3) Scope of audit pursuant to OMB Circular A-133

Compliance testing of all requirements, as described in the *Compliance Supplement* and Maryland State Department of Education amendments, was performed for the following major federal award programs.

<u>Program Description</u>	<u>CFDA Number</u>	<u>Fiscal Year 2013 Expenditures</u>
Child Nutrition Cluster	10.553, 10.555, 10.559	\$ 1,069,861
Medicaid	93.778	\$ 100,326

The Maryland State Department of Education (MSDE) has been designated as the cognizant audit agency for the OMB Circular A-133 audit.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(4) Fiscal year audited

Single audit testing procedures were performed for program transactions occurring during the fiscal year ended June 30, 2013. Single audit testing has previously been performed on transactions occurring during the fiscal year ended June 30, 2012.

(5) Funding sources

All programs reported in the schedule of expenditures of federal awards were passed through by the Maryland State Department of Education.

(6) Findings of noncompliance

The potential reimbursement effects of any questioned costs/reimbursements relate to costs/receipts which were inappropriately charged/credited to federal award programs. The ultimate disposition of these findings rests with the cognizant agency.

(7) Beginning accrued (deferred) revenue reconciliation

Beginning accrued (deferred) revenue at June 30, 2012 has been revised from the original schedule presentation based on communications with the Maryland State Department of Education as follows:

Balance at June 30, 2012, as originally reported	\$ (236,648)
Accrued Summer Food program (CFDA #10.559) not originally reported on the SEFA at June 30, 2012	3,122
Deferred Medical Assistance (CFDA #17.248) removed from the SEFA as per MSDE	246,980
Deferred Part B - PPPSS (CFDA #84.027) removed from the SEFA as per MSDE	<u>832</u>
Adjusted balance at July 1, 2012	<u><u>\$ 14,286</u></u>

(8) Revenue reconciliation

The following is a reconciliation of revenue recognized in the 2013 Schedule of Expenditures of Federal Awards with the revenue recognized in the 2013 basic financial statements.

Restricted current expense fund - U.S. government revenue	\$ 2,896,911
Less: restricted current expense fund - Medical Assistance	(217,714)
Food service fund - U.S. government revenue	1,069,861
Agency fund - Mid-Shore Special Education Consortium	<u>369,817</u>
 REVENUE RECOGNIZED ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	 <u><u>\$ 4,118,875</u></u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

A. SECTION 1 – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported
- Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Type of auditors’ report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No

Identification of major programs: Child Nutrition Cluster – CFDA 10.553, 10.555 and 10.559
Medicaid – CFDA 93.778

Dollar threshold used to distinguish between type A Type B programs: \$ 300,000

Auditee qualified as low-risk auditee: Yes

B. SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

C. SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATUS OF PRIOR YEAR'S FINDINGS

Year Ended June 30, 2013

The compliance procedures applied to the fiscal year ended June 30, 2012 did not disclose any findings of noncompliance or questioned costs.